XII. CERTAIN CHARTER AND BYLAW PROVISIONS

A. FL/Telmex Plan - Charter and Bylaw Provisions

Under the FL/Telmex Plan, the following Amended Certificate of Incorporation and Amended Bylaw provisions will be adopted by Reorganized XO. These provisions set forth below are summaries only and are qualified in their entirety by the Amended Certificate of Incorporation and Amended Bylaws, as applicable.

1. Board of Directors

The Amended Certificate of Incorporation provides that the number of directors shall be set forth in the Amended Bylaws, where it is initially set at twelve (12). The Reorganized XO Board of Directors may not take any action so long as the Forstmann Little Investors owns 10% of the outstanding shares of common stock unless a quorum including at least one director designated by the Forstmann Little Investors is present at such Board of Directors meeting. Likewise, Reorganized XO Board of Directors may not take any action so long as Telmex owns 10% of the outstanding shares of common stock unless a quorum including at least one director designated by Telmex is present at such Board of Directors meeting.

The Amended Certificate of Incorporation provides that if, at any time following the issuance of any shares of Class C Common Stock but prior to the Board Representation Date (as defined below), shares of Class C Common Stock are outstanding, the affirmative vote of a majority of the outstanding shares of the Class C Common Stock shall be required before Reorganized XO or any subsidiary may:

- acquire, by purchase, merger or otherwise, any equity or other ownership interest in, or assets of, any person in exchange for consideration with a fair market value greater than 20% of the net assets of Reorganized XO determined in accordance with GAAP;
- authorize for issuance or issue any equity securities, or any equity derivative securities, with a fair market value at the time of issuance in excess of $100 million, subject to certain exceptions;
- incur indebtedness in excess of $100 million in aggregate principal amount, subject to certain exceptions;
- amend the Amended Certificate of Incorporation or Bylaws of Reorganized XO; or
- issue any preferred stock.

"Board Representation Date" means the earlier of (i) the first date on which the Board of Directors of Reorganized XO has received written notice from Telmex that Telmex desires to designate directors to the Board of Directors of Reorganized XO pursuant to the Stockholders Agreement, and Telmex has determined in good faith, after consultation with its legal counsel,

which counsel shall be an outside law firm of national reputation, that one or more directors, officers or employees of Telmex or a subsidiary of Telmex can become directors without violating applicable law, and (ii) the first date upon which any director, officer or employee of Telmex or a Subsidiary of Telmex is elected or appointed as a director.

The Amended Certificate of Incorporation provides for an executive committee consisting of five (5) members. Initially, the executive committee will consist of Reorganized XO's chief executive officer, three members elected by the Forstmann Little Investors and one independent director appointed by Telmex. After such time that Telmex designates directors to the Board of Directors of Reorganized XO, the executive committee will consist of two designees of the Forstmann Little Investors, two designees of Telmex and Reorganized XO's chief executive officer. The Amended Certificate of Incorporation of Reorganized XO further provides that, once Telmex has designated a director, approval by a two-thirds majority vote of the executive committee of Reorganized XO is necessary to:

- adopt a new business plan or modify the current business plan;
- approve or recommend a Major Event, consolidation, reorganization or recapitalization of Reorganized XO or any sale of all or a substantial portion of the assets of Reorganized XO and its subsidiaries, taken as a whole;
- enter into a transaction or series of transactions with a fair market value in excess of $100 million;
- purchase, redeem, prepay acquire or retire for value any shares of its capital stock or securities exercisable for or convertible into shares of its capital stock other than as required under the terms of such capital stock;
- redeem, retire, defease, offer to purchase or change any material term, condition or covenant in respect of outstanding long-term indebtedness other than as required under the terms of such indebtedness;
- declare or pay dividends;
- incur indebtedness in excess of $100 million in aggregate principal amount, subject to certain qualifications;
- change accounting practices (other than as required by GAAP); and
- terminate certain employees in senior management positions as set forth in the Stockholders Agreement.

These provisions may have the effect of deterring hostile takeovers or delaying changes in control or management of the Company.

2. Conversion of Shares and Rights of Shareholders

As permitted by the DGCL, certain voting rights and designations for Reorganized XO's New Common Stock will be included in the Amended Certificate of Incorporation of Reorganized XO as deemed necessary by the Forstmann Little Investors and Telmex.

3. Amendment of Bylaws

The Reorganized XO Board of Directors or its shareholders are authorized and empowered to adopt, amend and repeal Reorganized XO's Amended Bylaws.

4. Section 203 Amendment

The Amended Certificate of Incorporation will be amended to make the anti-takeover protection of Section 203 of the DGCL inapplicable to Reorganized XO. Section 203 of the DGCL provides that a person who acquires fifteen percent (15%) or more of the outstanding voting stock of a Delaware corporation becomes an "interested stockholder." Section 203 prohibits a corporation from engaging in mergers or certain other "business combinations" with an interested stockholder for a period of three (3) years following the time that such interested stockholder becomes an interested stockholder, unless (i) prior to the date the stockholder becomes an interested stockholder, the board of directors of a corporation approves either the business combination or the transaction which results in the stockholder becoming an interested stockholder, or (ii) the interested stockholder is able to acquire ownership of at least 85% of the outstanding voting stock of the corporation (excluding shares owned by directors of the corporation who are also officers and shares owned by certain employee stock plans) in the same transaction by which the stockholder became an interested stockholder, or (iii) the interested stockholder obtains control of the Board of Directors, which then approves a business combination which is authorized by a vote of the Holders of two-thirds of the outstanding voting stock not held by the interested stockholder.

A "business combination" is defined broadly in the DGCL to include any merger or consolidation with the interested stockholder, any merger or consolidation caused by the interested stockholder in which the surviving corporation will not be subject to Delaware law, or the sale, lease, exchange, mortgage, pledge, transfer or other disposition to the interested stockholder of any assets of the corporation having a market value equal to or greater than 10% of the aggregate market value of the assets of the corporation. "Business combination" is also defined to include transfers of stock of the corporation or a subsidiary to the interested stockholder (except for transfers in conversion, exchange or pro rata distribution which do not increase the interested stockholder's proportionate ownership of a class or series), or any receipt by the interested stockholder (except proportionately as a stockholder) of any loans, advances, guaranties, pledges or financial benefits. This summary is qualified in its entirety by Section 203 of the DGCL.

The amendment to opt out of Section 203 will become effective as of the earliest date permitted by law, currently twelve (12) months after adoption of amendments to the

Amended Certificate of Incorporation, and will not apply to any business combination with any interested stockholder prior to adoption.

B. Stand-Alone Plan - Charter and Bylaw Provisions

Under the Stand-Alone Plan, the following Amended Certificate of Incorporation and Amended Bylaw provisions will be adopted by Reorganized XO. These provisions are summaries and are qualified in their entirety by the Amended Certificate of Incorporation and the Amended Bylaws.

1. Board of Directors

The Amended Certificate of Incorporation will provide that the number of directors shall be set forth in the Amended Bylaws, where it will be initially set at seven (7) designated as follows: (i) two by Reorganized XO's senior management and (ii) five by the Allowed Holders of Senior Secured Lender Claims, provided that if the Rights Offering yields more than $150 million, then one of the members of the Board nominated by the Holders of Senior Secured Lender Claims shall resign and the remaining directors shall elect to fill the vacancy an individual nominated by one or more of the parties who exercised Rights. The Amended Certificate of Incorporation and Bylaws shall reflect the foregoing provisions.

2. Amendment of Bylaws

The Reorganized XO Board of Directors or its shareholders are authorized and empowered to adopt, amend and repeal Reorganized XO's Amended Bylaws.

C. Indemnification of Directors and Officers

Under Section 145 of the DGCL, a corporation may indemnify its directors, officers, employees and agents and its former directors, officers, employees, and agents and those who serve, at the corporation's request, in such capacities with another enterprise, against expenses (including attorneys' fees), as well as judgments, fines and settlements in non-derivative lawsuits, actually and reasonably incurred in connection with the defense of any action, suit or proceeding in which they or any of them were or are made parties or are threatened to be made parties by reason of their serving or having served in such capacity. The DGCL provides, however, that such person must have acted in good faith and in a manner such person reasonably believed to be in (or not opposed to) the best interests of the corporation and, in the case of a criminal action, such person must have had no reasonable cause to believe his or her conduct was unlawful. In addition, the DGCL does not permit indemnification in an action or suit by or in the right of the corporation, where such person has been adjudged liable to the corporation, unless, and only to the extent that, a court determines that such person fairly and reasonably is entitled to indemnity for costs the court deems proper in light of liability adjudication. Indemnity is mandatory to the extent a claim, issue or matter has been successfully defended.

The Amended Certificate of Incorporation under both the FL/Telmex Plan and the Stand-Alone Plan will contain provisions that provide that no director of Reorganized XO shall be liable for breach of fiduciary duty as a director except for (1) any breach of the director's duty

of loyalty to Reorganized XO or its stockholders; (2) acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law; (3) liability under Section 174 of the DGCL; or (4) any transaction from which the director derived an improper personal benefit. The Amended Certificate of Incorporation will contain provisions that further provide for the indemnification of directors and officers to the fullest extent permitted by the DGCL. The Amended Certificate of Incorporation will require Reorganized XO to advance expenses incurred by an officer or director in defending any such action if the director or officer undertakes to repay such amount if it is determined that the director or officer is not entitled to indemnification.

XO has obtained a $90,000,000 ($500,000 retention amount) directors' and officers' liability insurance policy against certain liabilities, including liabilities under the Securities Act. Pursuant to the Investment Agreement, Reorganized XO will not allow such insurance policies to lapse, cease to remain effective or fail to be renewed to prevent any material increase in potential exposure or liability of the directors and officers. In addition pursuant to the Investment Agreement, Reorganized XO must maintain directors' and officers' liability insurance in such amounts and otherwise on terms and conditions reasonably acceptable to each Investor throughout the term of the Stockholders Agreement. Although XO is not required to maintain directors' and officers' liability insurance under the Stand-Alone Term Sheet, XO intends to maintain such insurance.

XIII. THE SOLICITATION; VOTING PROCEDURE

A. Parties in Interest Entitled to Vote

Under section 1124 of the Bankruptcy Code, a class of claims or interests is deemed to be "impaired" under a plan unless (i) the plan leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder thereof or (ii) notwithstanding any legal right to an accelerated payment of such claim or interest, the plan cures all existing defaults (other than defaults resulting from the occurrence of events of bankruptcy) and reinstates the maturity of such claim or interest as it existed before the default.

In general, a holder of a claim or interest may vote to accept or to reject a plan if (i) the claim or interest is "allowed," which means generally that no party in interest has objected to such claim or interest, and (ii) the claim or interest is impaired by the plan. If, however, the holder of an impaired claim or interest will not receive or retain any distribution under the plan on account of such claim or interest, the Bankruptcy Code deems such holder to have rejected the plan, and, accordingly, holders of such claims and interests do not actually vote on the plan. If a claim or interest is not impaired by the plan, the Bankruptcy Code deems the holder of such claim or interest to have accepted the plan and, accordingly, holders of such claims and interests are not entitled to vote on the plan.

B. Classes Impaired under the Plan

Classes 1, 5 and 6 are entitled to vote to accept or reject either or both Alternatives under the Plan. By operation of law, each Unimpaired Class of Claims is deemed to have accepted both Alternatives under the Plan and, therefore, is not entitled to vote to accept or reject the FL/Telmex Plan or the Stand-Alone Plan. By operation of law, each Holder of a Claim in Classes 7, 8, 9, 10 and 11 is deemed to have rejected both Alternatives under the Plan and, therefore, is not entitled to vote to accept or reject the FL/Telmex Plan or the Stand-Alone Plan.

C. Voting Rules; Standards

The following rules and standards shall apply to the completion, delivery, acceptance and tabulation of votes for both Alternatives under the Plan:

1. Any Ballot which is properly completed, executed and timely returned to the Balloting Agent that does not indicate an acceptance or rejection of an Alternative under Plan or indicates both an acceptance and rejection of an Alternative under the Plan shall be deemed to be a vote to accept such Alternative the Plan.

2. Any Ballot which is returned to the Balloting Agent indicating acceptance or rejection of the Alternatives under the Plan but which is unsigned or does not contain an original signature shall not be counted.

3. Any Ballot postmarked prior to the deadline for submission of Ballots but received afterward shall not be counted, unless otherwise ordered by the Court.

4. Pursuant to Bankruptcy Rule 3018(a), whenever a holder of a claim submits more than one ballot voting the same claim prior to the deadline for submission of ballots, except as otherwise directed by the Bankruptcy Court, the last such ballot sent and received prior to the voting deadline will be deemed to reflect the voter's intent and thus to supersede any prior ballots. The Bankruptcy Court has adopted a rebuttable presumption that any creditor who submits a superseding ballot has sufficient cause to do so, within the meaning of Bankruptcy Rule 3018(a).

5. A Holder of a Claim or Interest must vote all of its Claims or Interests within a particular Class under the Plan either to accept or reject either or both of the Alternatives under the Plan and may not split its vote. Accordingly, a Ballot (or multiple Ballots with respect to separate claims within a single class) that partially rejects and partially accepts an Alternative, or that indicates both a vote for and against an Alternative, shall be deemed to be a vote to accept such Alternative under the Plan. This provision shall not apply to summary ballots, completed by intermediaries acting on behalf of groups of Claim Holders, that reflect the votes of the beneficial Holders of such Claims.

6. If a creditor casts simultaneous or duplicate Ballots voted inconsistently, such Ballots shall count as one vote accepting each Alternative under Plan.

7. Each creditor shall be deemed to have voted the full amount of its claim.

8. Any Ballot received by the Balloting Agent by telecopier, facsimile or other electronic communication shall not be counted.

9. Unless otherwise ordered by the Bankruptcy Court, questions as to the validity, form, eligibility (including time of receipt), acceptance and revocation or withdrawal of Ballots will be determined by the Balloting Agent and the Debtor in their sole discretion, which determination will be final and binding.

The Debtor also reserves the right to reject any and all Ballots not in proper form, the acceptance of which would, in the opinion of the Debtor or their counsel, be unlawful. The Debtor further reserves the right to waive any defects or irregularities or conditions of delivery as to any particular Ballot. The interpretation (including the Ballot and the respective instructions thereto) by the Debtor, unless otherwise directed by the Bankruptcy Court, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with deliveries of Ballots must be cured within such time as the Debtor (or the Bankruptcy Court) determines. Neither the Debtor nor any other person will be under any duty to provide notification of defects or irregularities with respect to deliveries of Ballots nor will any of them incur any liabilities for failure to provide such notification. Unless otherwise directed by the Bankruptcy Court, delivery of such Ballots will not be deemed to have been made until such irregularities have been cured or waived. Ballots previously furnished (and as to which any irregularities have not theretofore been cured or waived) will be invalidated.

HOLDERS OF CLAIMS MAY VOTE TO (I) ACCEPT BOTH ALTERNATIVES, (II) REJECT BOTH ALTERNATIVES OR (III) ACCEPT ONE ALTERNATIVE AND REJECT THE OTHER ALTERNATIVE. ANY EXECUTED BALLOT THAT DOES NOT INDICATE EITHER AN ACCEPTANCE OR REJECTION OF AN ALTERNATIVE OR INDICATES BOTH AN ACCEPTANCE AND REJECTION OF AN ALTERNATIVE SHALL BE DEEMED TO CONSTITUTE AN ACCEPTANCE OF SUCH ALTERNATIVE.

D. Further Information; Additional Copies

If you have any questions or require further information about the voting procedure for voting your Claim(s) or Interest(s) or about the packet of material you received, or if you wish to obtain an additional copy of the Plan, this Disclosure Statement, or any exhibits or appendices to such documents (at your own expense, unless otherwise specifically required by Bankruptcy Rule 3017(d)), please contact the Balloting Agent:

XO Communications, Inc.
c/o Bankruptcy Services LLC
70 East 55th Street, 6th Floor
New York, New York 10022
Attn: Mariah Martin
Phone: (212) 376-8494

XIV. CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following discussion summarizes certain United States federal income tax consequences of the Plan with respect to XO and certain Holders of Claims who are entitled to vote to accept or reject either Alternative under the Plan. Accordingly, the following summary does not apply to Holders whose Claims are entitled to reinstatement or payment in full in cash under the Plan or to Holders whose Claims or Interests are Impaired under the Plan and who are deemed to reject both FL/Telmex Plan and the Stand-Alone Plan. The consequences to XO and Holders of Claims will differ depending on whether the FL/Telmex Plan or the Stand-Alone Plan is consummated. This description is for informational purposes only and, due to a lack of definitive judicial or administrative authority or interpretation, substantial uncertainties exist with respect to various tax consequences of the Plan as discussed herein. No opinion of counsel has been sought or obtained with respect to any tax consequences of the Plan. No rulings or determinations of the Internal Revenue Service (the "IRS") or any other taxing authority has been sought or obtained with respect to the tax consequences of the Plan, and the discussion below is not binding upon the IRS or any other taxing authority. XO is not making any representations regarding the particular tax consequences of the confirmation and consummation of the Plan as to any Holder, and is not rendering any form of legal opinion as to such tax consequences. No assurance can be given that the IRS would not assert, or that a court would not sustain, a different position from any discussed herein.

The tax consequences of the Plan are uncertain. Although the Company does not believe that implementation of the Plan will itself result in significant tax liability, the impact of the Plan on the Company's ability to use existing net operating loss carryovers, built-in-losses and other favorable tax attributes is uncertain. Limitations on the Company's ability to use such favorable tax attributes could adversely affect the Company's financial position.

The discussion of United States federal income tax consequences below is based on the Internal Revenue Code of 1986, as amended (the "IRC"), regulations promulgated thereunder by the United States Department of Treasury, published rulings and pronouncements of the IRS, and judicial decisions, all as in effect on the date of this document. Changes in these rules, or new interpretations thereof, may have retroactive effect and could significantly affect the federal income tax consequences described below.

The following discussion does not address foreign, state or local tax consequences of the Plan, nor does it purport to address all of the United States federal income tax consequences of the Plan or tax consequences applicable to special classes of taxpayers (e.g., banks and certain other financial institutions, insurance companies, tax-exempt organizations, persons that are, or hold their Claims through, pass-through entities, persons whose functional currency is not the United States dollar, foreign persons, dealers in securities or foreign currency, persons who received their stock pursuant to the exercise of any employee stock option or otherwise as compensation and persons holding Claims that are a hedge against, or that are hedged against, currency risk or that are part of a straddle, constructive sale or conversion transaction). Furthermore, the following discussion does not address United States federal taxes other than income taxes. The following discussion assumes that Holders hold their Claims as capital assets for United States federal income tax purposes.

THE FOLLOWING SUMMARY OF CERTAIN UNITED STATES FEDERAL INCOME TAX CONSEQUENCES IS FOR INFORMATIONAL PURPOSES ONLY AND IS NOT A SUBSTITUTE FOR CAREFUL TAX PLANNING AND ADVICE BASED ON THE INDIVIDUAL CIRCUMSTANCES PERTAINING TO THE HOLDER OF A CLAIM. EACH HOLDER OF A CLAIM IS URGED TO CONSULT ITS OWN TAX ADVISOR REGARDING THE UNITED STATES FEDERAL, STATE, LOCAL AND ANY FOREIGN TAX CONSEQUENCES OF THE TRANSACTIONS DESCRIBED HEREIN AND IN THE PLAN.

A. Tax Consequences to XO

1. Cancellation of Indebtedness Income

Under the FL/Telmex Plan, the cancellation of the Subordinated Notes and the exchange of the Allowed Senior Note Claims and General Unsecured Claims for cash and New Class A Common Stock pursuant to the Plan will result in the cancellation of a portion of XO's outstanding indebtedness. Upon consummation of the Plan, XO will realize cancellation of debt ("COD") income in an amount equal to: (i) the adjusted issue price (including any accrued but unpaid interest) of the Subordinated Notes plus; (ii) the excess of the adjusted issue price (including any accrued but unpaid interest) of the Senior Notes over the sum of (a) the amount of cash paid in exchange therefor and (b) the fair market value of the New Class A Common Stock issued in exchange therefor plus; (iii) the excess of the General Unsecured Claims over the sum of (x) the amount of cash paid in exchange therefor and (y) the fair market value of the New Class A Common stock issued in exchange therefor. In addition, XO may recognize COD income as a result of amendments to the terms of the Senior Credit Facility, depending on two factors: first, whether the Senior Secured Lender Claims are treated as publicly traded during the period beginning 30 days prior to consummation of the Plan and ending 30 days after consummation of the Plan and second, depending on whether the amendments to the terms of the Senior Credit Facility are considered sufficiently material to constitute an exchange for federal income tax purposes (as described below). Because XO will be a Debtor in a bankruptcy case at the time it realizes the COD income, XO will not be required to include such COD income in its taxable gross income. Instead, XO will be required to reduce certain of its tax attributes by the amount of unrecognized COD income in the manner prescribed by IRC section 108(b). The required attribute reduction is generally applied to reduce net operating loss carryforwards ("NOLs"), to the extent of such NOLs, and certain other tax attributes of XO (including XO's tax basis in certain property).

XO will also realize COD income under the Stand-Alone Plan. The amount of such COD will be a function of the consideration issued with respect to the various claims. For example, the COD income realized with respect to the Senior Note Claims will equal the excess of (x) the adjusted issue price (including any accrued but unpaid interest) of the Senior Notes over (y) the fair market value of the New Warrants (if the required class vote occurs) plus the fair market value of the Nontransferable Rights. In addition, COD income will be realized with respect to the Senior Secured Lender Claims in an amount equal to the excess of (a) the adjusted issue price (including any accrued but unpaid interest) of the Senior Secured Lender Claims over (b) the fair market value of the Class A Common Stock plus the issue price of the New Junior Secured Loans (determined as described below).

2. NOLs and Other Tax Attributes

The appropriate methodology for applying the attribute reduction described above to an affiliated group filing a consolidated federal income tax return is uncertain. A recent Supreme Court case may be interpreted to suggest, and the IRS has recently taken the position that, an affiliated group's consolidated NOLs must be reduced when a member of the group has COD that is excluded from income. In addition, the Company may be entitled to make certain elections that will affect attribute reduction. Reducing consolidated NOLs may permit XO to avoid reducing its tax basis in certain depreciable and amortizable assets, although all or substantially all of the NOLs of the XO consolidated group would be eliminated using that methodology.

The Company will determine the appropriate methodology and elections under their interpretation of the law as in effect when the Company's tax returns are filed and given the facts as they are known at such time. The Company cannot assure you that the IRS will agree with the methodology chosen by the Company. Accordingly, the NOLs of the Company may be substantially reduced or even eliminated. Other tax attributes may also be reduced. To the extent that asset basis is reduced, depreciation or amortization of assets would also be reduced, and gain recognized (and therefore tax imposed) in connection with a disposition of assets may be increased.

3. Section 382 Limitation

When a corporation undergoes an ownership change, IRC section 382 generally limits the ability of the corporation to utilize historic NOLs and certain subsequently recognized "built-in" losses and deductions (i.e., losses and deductions that have economically accrued but are unrecognized as of the date of the ownership change) (the "Annual Section 382 Limitation"). For purposes of the Annual Section 382 Limitation, an "ownership change" is generally defined as a more than 50 percentage point change in ownership of the applicable corporation over a three-year "testing period." As a general rule, a corporation's Annual Section 382 Limitation equals the value of the stock of the corporation (with certain adjustments) immediately before the ownership change, multiplied by the applicable "long-term tax-exempt rate" then in effect (e.g., 5.01% for a June 2002 ownership change). Certain "recognized built-in losses," including certain deductions, triggered during a "recognition period taxable year" may be limited in the same manner as if such loss were an NOL existing as of the ownership change. A "recognition period taxable year" is any taxable year that a portion of which falls within the five year period beginning on the date of the ownership change. Subject to certain limitations, any unused portion of the Annual Section 382 Limitation may be available in subsequent years. A corporation must meet certain continuity of business enterprise requirements for at least two years following an ownership change in order to preserve the Annual Section 382 Limitation.

XO believes that it will undergo an ownership change as a result of the implementation of Plan. If that occurs, the ability of the Company to utilize any NOLs that remain after the implementation of the Plan will be will be subject to an Annual Section 382 Limitation, as described above. In addition, the Company may have "net unrealized built-in losses," in which event, a portion of their losses, depreciation, amortization and other items considered to be "recognized built-in losses" may be limited as described above. There are

significant factual and legal uncertainties governing the computation of "net unrealized built-in loss," and, accordingly, the extent to which this limitation will apply is uncertain.

IRC section 382(l)(5) provides an exception to the application of the Annual Section 382 Limitation for ownership changes occurring to corporations under the jurisdiction of a Bankruptcy Court if certain requirements are met (the "Bankruptcy Exception"). If the Bankruptcy Exception applies, IRC section 382(a) would not apply to limit XO's use of its NOLs and "recognized built-in losses." However, if a second ownership change were to occur within the two-year period starting with the consummation of the Plan, the Annual Section 382 Limitation imposed as a result of this second ownership change would be zero. Under the FL/Telmex Plan, it is unlikely that XO will qualify for the Bankruptcy Exception. In order for the Bankruptcy Exception to apply to XO, its historic shareholders and creditors that held certain "qualified indebtedness" (as defined by regulation) prior to implementation of the Plan must own (as a result of being shareholders and creditors immediately prior to implementation of the Plan) more than 50% of the total voting power and total value of XO's stock after such implementation. If the Bankruptcy Exception applied, XO's ability to utilize its NOLs arising prior to the Effective Date and built-in losses and deductions (if any) recognized after the effective date of the Plan would not be limited as described above. Under the Stand-Alone Plan, XO may be able to qualify for the Bankruptcy Exception. Whether XO qualifies for the Bankruptcy Exception will depend on a number of factors, including the extent of trading in the Senior Secured Lender Claims. Even if XO does qualify for the Bankruptcy Exception, however, it might elect out of the Bankruptcy Exception in order to avoid the possibility of a zero Annual Section 382 Limitation, unless it is able to adopt measures (such as restrictions on transfers of shares) designed to minimize the risk of a second ownership change.

If XO does not qualify for the Bankruptcy Exception or elects to have the Bankruptcy Exception not apply, a special rule under IRC section 382(l)(6) will apply in calculating XO's Annual Section 382 Limitation. Under this special rule, XO's Annual Section 382 Limitation will be calculated by reference to the lesser of (i) the value of XO's stock (with certain adjustments) immediately after the ownership change (as opposed to immediately before the ownership change, as discussed above, and including any increase in value resulting from any surrender or cancellation of indebtedness under the bankruptcy case) or (ii) the value of XO's assets (determined without regard to liabilities) immediately before the ownership change.

4. Interest Deductions

It is possible that the New Junior Secured Loans will be subject to the rules governing "applicable high-yield obligations," in which event, a portion of the interest otherwise deductible on such loans will be deferred until paid or possibly disallowed. It is also possible that XO may be entitled to interest deductions on other obligations in excess of the stated interest payable on such obligations if such obligations are considered to be issued with original issue discount. See, e.g., the discussion below concerning possible original issue discount on the Senior Secured Lender Claims.

B. Certain Tax Consequences to Holders of Certain Claims

1. General

a. Tax Securities

The tax consequences of the Plan to a Holder of a Claim may depend in part upon (1) whether such Claim is based on an obligation that constitutes a "security" for federal income tax purposes and (2) whether all or a portion of the consideration received for such Claim is an obligation that constitutes a "security" for federal income tax purposes. The determination of whether a debt obligation constitutes a security for federal tax purposes is complex and depends on the facts and circumstances surrounding the origin and nature of the claim. Generally, obligations arising out of the extension of trade credit have been held not to be tax securities, while corporate debt obligations evidenced by written instruments with original maturities of ten years or more have been held to be tax securities. It is uncertain whether the Claims or the New Junior Secured Loans will be considered securities for federal tax purposes and Holders are advised to consult their tax advisors with respect to this issue.

b. "Fair Market Value"

For tax purposes, the fair market value of the New Class A Common Stock, New Reorganization Common Stock, New Warrants and Rights will be their actual fair market value upon issuance. The fair market value of the new debt instruments will be their respective "issue price," as defined in the IRC. The "issue price" of any such note should be its "stated principal amount" (generally, the aggregate of all payments due under the note, excluding stated interest), if neither the note nor the Claim for which it is exchanged is considered to be "publicly traded" (within the meaning of the original issue discount ("OID") rules of the IRC) within a short period before or after the Effective Date of the Plan. Otherwise, such issue price will be its actual fair market value, as determined by such public trading. For this purpose, "stated interest" does not include interest unless it is unconditionally payable in cash or other property (other than debt instruments of the issuer) at least annually at a single fixed rate (or certain qualified floating rates). The OID rules of the Code define "publicly traded" to include appearing on a "quotation medium" that provides a reasonable basis to determine fair market value by disseminating either recent price quotations of identified brokers, dealers or traders, or actual prices of recent sales transactions. As no transfer restrictions are contemplated for the new debt instruments, the Company cannot assure that the new debt instruments will not be considered "publicly traded."

c. Character of Gain or Loss

The character of any gain or loss as ordinary or capital with respect to a Claim, or with respect to the disposition of stock or a security received in respect of a Claim, will depend on a number of factors, including, without limitation,

- the origin and nature of the Claim,
- the tax status of the Holder of the Claim,
- whether the Claim is a capital asset in the hands of the Holder, and

- the extent to which the Holder previously claimed a loss, bad debt deduction or charge to a reserve for bad debts with respect to the Claim.

If gain or loss recognized by a Holder of a Claim is capital gain or loss, it will be long-term if the Holder held the asset underlying such Claim for more than one year.

Special considerations apply to Holders that acquired their Claim at a discount subsequent to their issuance (see "Market Discount" below), or when interest was in default. The tax consequences of the receipt of cash and property that is attributable to accrued but unpaid interest is discussed below in the section entitled "Consideration Allocable to Interest." Each Holder is urged to consult its tax advisor as to the application of these factors to its own particular circumstances.

d. Consideration Allocable to Interest

A Holder of a Claim that receives a distribution under the Plan with respect to its Claim will recognize ordinary income to the extent t receives cash or property in respect of interest (including original issue discount that has accrued during the time that the Holder has held such Claim) that has not already been included by the Holder in income for federal income tax purposes under its regular method of accounting. In the event that the cash and other property allocable to interest is less than the amount previously included as interest in the Holder's federal income tax return, the discharged portion of interest may be deducted in the taxable year in which the Effective Date occurs. The extent to which consideration distributed under the Plan is allocable to interest is uncertain, and Holders of Claims are urged to consult their own tax advisors concerning that subject.

e. Market Discount

Generally, a "market discount" bond is one acquired after its original issuance for less than the issue price of such bond plus the aggregate amount, if any, of original issue discount includible in the income of all holders of such bond before such acquisition. Generally, gain realized on the disposition of a market discount bond (or on the disposition of property exchanged for such bond in certain non-taxable exchanges) will be ordinary income to the extent of "accrued market discount" at the time of such disposition (determined using either constant interest or ratable daily accrual). The market discount rules will also apply in the case of stock or a security acquired on original issuance under a non-taxable exchange for a market discount obligation.

f. Original Issue Discount

If the new debt obligations to be issued under the Plan or the debt obligations for which they will be exchanged are "publicly traded" within the meaning of the OID rules, the new debt obligations may have significant amounts of OID. The amount of OID applicable to a particular debt instrument would equal the difference between such debt instrument's "stated redemption price at maturity" (as such term is defined in the IRC) and its "issue price" (determined as discussed above in the section on "Fair Market Value"). In general, a holder of a debt instrument with OID must include such OID in its income on a constant yield to maturity

basis over the term of the instrument. The rules and regulations governing the calculation and taxation of OID are complex, and holders of debt obligations are urged to consult their tax advisors with regard to the tax consequences to them of owning such debt obligations.

g. Rights and New Warrants

Both the Rights and the New Warrants should be treated as rights to acquire New Reorganization Common Stock of Reorganized XO, and although the treatment of relatively short-term, contingent rights to acquire stock such as the Rights is somewhat uncertain, this discussion assumes that such rights and warrants will be treated as securities. Thus, for federal income tax purposes, the Rights and New Warrants should be treated as securities having no principal amount, and the exercise of these rights should not result in a taxable event.

h. Treatment of "Gifts" by the Holders of the Senior Secured Lender Claims

Although this Disclosure Statement provides that, under the Stand-Alone Plan, Holders of Allowed General Unsecured Claims and Allowed Senior Note Claims will receive distributions treated as gifts from the Holders of the Senior Secured Lender Claims, such distributions will not be treated as gifts for U.S. federal income tax purposes. Therefore, the Holders of the Senior Secured Lender Claims will not be treated as receiving any property "gifted" to the Holders of Allowed General Unsecured Claims and Allowed Senior Note Claims. Instead, the Holders of Allowed General Unsecured Claims and Allowed Senior Note Claims will be treated as receiving any distributions directly from the Company in exchange for their Allowed General Unsecured Claims and Allowed Senior Note Claims.

2. Consequences to Certain Holders

a. Senior Secured Lender Claims

The United States federal income tax consequences of the Plan to Senior Secured Lenders (including the character and amount of income, gain or loss recognized) will depend upon, among other things, (1) the manner in which a Senior Secured Lender acquired its Senior Secured Lender Claims; (2) the length of time the Senior Secured Lender Claim has been held; (3) whether the Senior Secured Lender Claim was acquired at a discount; (4) whether the Senior Secured Lender has taken a bad debt deduction with respect to the Senior Secured Lender Claim (or any portion thereof) in the current or prior tax years; (5) whether the Senior Secured Lender has previously included in income any accrued but unpaid interest with respect to the Senior Secured Lender Claim; (6) the Senior Secured Lender's method of tax accounting or rules or provisions specific to its situation (such as rules applicable to banks); and (7) whether the Senior Secured Lender Claims constitute "securities" for United States federal income tax purposes. Therefore, Senior Secured Lenders should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequences of the Plan to them.

i. Under the FL/Telmex Plan:

Under the FL/Telmex Plan, the tax consequences to the Senior Secured Lenders will also depend on two factors: (i) whether the amendment and restatement of the Senior Credit

Facility constitutes a "material modification" for federal income tax purposes within the meaning of Treasury Regulations section 1.1001-3; and (ii) whether the Senior Secured Lender Claims are "publicly traded" (within the meaning of the OID rules of the IRC).

It is unclear whether the amendment and restatement of the Senior Credit Facility constitutes a "material modification" for federal income tax purposes. Certain safe harbors for the deferral of scheduled payments do not appear to apply, and accordingly the test is whether there is a "material deferral" of scheduled payments. If the deferral is not material, the amendment and restatement of the Senior Credit Facility will not result in recognition of gain or loss to the Senior Secured Lenders. If the deferral is material, the amendment and restatement of the Senior Credit Facility will result in recognition of gain or loss to the Senior Secured Lenders if the Senior Secured Lender Claims are not securities. If the gain or loss is recognized, the amount of such gain or loss will be the difference, if any, between the issue price of restated Senior Secured Lender Claims and the adjusted tax basis of the Senior Secured Lender Claim prior to the restatement.

The "issue price" of any such Claim should be the "stated principal amount" of the note underlying such Claim (generally, the aggregate of all payments due under the note, excluding stated interest), if the Senior Secured Lender Claims are not considered to be "publicly traded" (within the meaning of the OID rules of the IRC) within a short period before or after the Effective Date of the Plan. Otherwise, such issue price will be its actual fair market value, as determined by such public trading. For this purpose, "stated interest" does not include interest unless it is unconditionally payable in cash or other property (other than debt instruments of the issuer) at least annually at a single fixed rate (or certain qualified floating rates). The OID rules of the Code define "publicly traded" to include appearing on a "quotation medium" that provides a reasonable basis to determine fair market value by disseminating either recent price quotations of identified brokers, dealers or traders, or actual prices of recent sales transactions. As no transfer restrictions are contemplated for the Senior Secured Lender Claims, XO cannot assure that they will not be considered "publicly traded."

ii. Under the Stand-Alone Plan:

Under the Stand-Alone Plan, the consequences to the Senior Secured Lenders will depend on whether the Senior Secured Lender Claims and New Junior Secured Loans are securities and whether either of such instruments publicly trades.

(1) If the Senior Secured Lender Claims are securities

If the Senior Secured Lender Claims are securities, the exchange of Senior Secured Lender Claims for New Junior Secured Loans, New Reorganization Common Stock and the Rights will constitute a recapitalization; and Senior Secured Lender Claims will not recognize gain or loss if the New Junior Secured Loans are also securities. A Senior Secured Lender's holding period in the New Junior Secured Loans, the New Reorganization Common Stock and the Rights would include the Senior Secured Lender's holding period in its Senior Secured Note Claim, and the Senior Secured Lender would have a basis in the New Junior Secured Loans, the New Reorganization Common Stock and the Rights equal, in the aggregate, to the Senior Secured Lender's basis in its Senior Secured Lender Claims.

If the New Junior Secured Loans are not securities, each Senior Secured Lender will recognize gain, but not loss, in an amount equal to the lesser of (i) the issue price of the New Junior Secured Loans and (ii) the excess of (A) the sum of fair market value of the New Reorganization Common Stock and the Rights plus the issue price of the New Junior Secured Loans over (B) the adjusted basis of the Senior Secured Lender in the Senior Secured Lender Claim. A Senior Secured Lender's holding period in the New Reorganization Common Stock and the Rights would include the Senior Secured Lender's holding period in its Allowed Senior Note Claim, while the Senior Secured Lender would start a new holding period in the New Junior Secured Loans. The Senior Secured Lender's basis in the New Junior Secured Loans would equal their issue price, and the Senior Secured Lender's basis in the New Reorganization Common Stock and the Rights would equal the Senior Secured Lender's basis in its Senior Secured Lender Claim less the issue price of the New Junior Secured Loans plus the amount of gain, if any, recognized on the exchange.

(2) If the Senior Secured Lender Claims are not securities

If the Senior Secured Lender Claims are not securities, the exchange of Senior Secured Lender Claims for New Junior Secured Loans, New Reorganization Common Stock and the Rights will be fully taxable; and Senior Secured Lender Claims will recognize gain or loss in an amount equal to the excess of (A) the sum of fair market value of the New Reorganization Common Stock and the Rights plus the issue price of the New Junior Secured Loans over (B) the adjusted basis of the Senior Secured Lender in the Senior Secured Lender Claim. A Senior Secured Lender would start a new holding period in the New Junior Secured Loans, the New Reorganization Common Stock and the Rights. A Senior Secured Lender's basis in the New Reorganization Common Stock and the Rights would equal its fair market value, and the Holder's basis in the New Junior Secured Loans would equal the issue price of such Loans.

b. Allowed Senior Note Claims in XO

The United States federal income tax consequences of the Plan to Senior Noteholders (including the character and amount of income, gain or loss recognized) will depend upon, among other things, (1) the manner in which a Senior Noteholder acquired its Senior Note; (2) the length of time the Senior Note has been held; (3) whether the Senior Note was acquired at a discount; (4) whether the Senior Noteholder has taken a bad debt deduction with respect to the Senior Note (or any portion thereof) in the current or prior tax years; (5) whether the Senior Noteholder has previously included in income any accrued but unpaid interest with respect to the Senior Note; (6) the Senior Noteholder's method of tax accounting; and (7) whether the Allowed Senior Note Claims in XO (i.e., the Senior Notes) constitute "securities" for United States federal income tax purposes. Therefore, Senior Noteholders should consult their own tax advisors for information that may be relevant to their particular situations and circumstances and the particular tax consequences of the Plan to them.

i. Under the FL/Telmex Plan:

Under the FL/Telmex Plan, the exchange of Allowed Senior Note Claims for cash and New Class A Common Stock will be a recapitalization with respect to Allowed Senior Notes Claims that are securities. With respect to an exchange that is a recapitalization, a Senior

Noteholder will recognize gain, but not loss, with respect to its Allowed Senior Note Claim in XO surrendered pursuant to the Plan in an amount equal to the lesser of (x) the amount of gain realized (i.e., the excess of the amount of cash and fair market value of the New Class A Common Stock received by such Senior Noteholder in exchange for its Allowed Senior Note Claim, over such Senior Noteholder's adjusted tax basis in its Allowed Senior Note Claim) and (y) the cash received by such Senior Noteholder in the exchange. A Senior Noteholder's basis in the New Class A Common Stock will equal its basis in the Allowed Senior Note Claim less the amount of cash received plus the amount of gain, if any, recognized. The Senior Noteholder's holding period in the New Class A Common Stock will include the Senior Noteholder's holding period in the Allowed Senior Note Claim.

The exchange of Allowed Senior Note Claims for cash and New Class A Common Stock will be a fully taxable transaction with respect to Allowed Senior Note Claims that are not securities. A Senior Noteholder would recognize any gain or loss realized on the transaction and would take a fair market value basis in its New Class A Common Stock. Its holding period would begin on the day after it received the New Class A Common Stock.

ii. Under the Stand-Alone Plan:

Under the Stand-Alone Plan, the tax consequences of the exchange of Allowed Senior Note Claims for Nontransferable Rights and possibly New Warrants will be a recapitalization with respect to Allowed Senior Notes Claims that are securities. The Senior Noteholders should not recognize any gain or loss realized on the transaction. A Senior Noteholder's basis in the Nontransferable Rights and New Warrants (if any) will equal in the aggregate its basis in the Allowed Senior Note Claim, and its holding period will include its holding period in the Allowed Senior Note Claim.

Under the Stand-Alone Plan, the tax consequences of the exchange of Allowed Senior Note Claims for Nontransferable Rights and possibly New Warrants will be a fully taxable transaction with respect to Allowed Senior Notes Claims that are not securities. Senior Noteholders will recognize any gain or loss realized on the exchange, and will have a fair market value basis in the Nontransferable Rights and any New Warrants received. Their holding period in the Nontransferable Rights and New Warrants, if any, will begin on the day after they receive them.

c. General Unsecured Claims

Whether the transactions contemplated by the FL/Telmex Plan or the Stand-Alone Plan occur, the exchange of a General Unsecured Claim under the Plan will be a fully taxable transaction. The Holder of such a claim must recognize any gain or loss realized on the transaction, and will take a fair market value basis in the property received in the exchange. The Holder's holding period in the property received in the exchange will begin on the day following the Holder's receipt of such property.

C. Certain Consequences to Non-United States Holders

A non-U.S. Holder will generally not be subject to United States federal income tax with respect to the property received in exchange for its Claim in XO pursuant to the Plan

unless, among other things, (a) such non-U.S. Holder is engaged in a trade or business in the United States to which income, gain or loss from the exchange is "effectively connected" for United States federal income tax purposes, or (b) in the case of an individual, such Non-U.S. Holder is present in the United States for 183 days or more during the taxable year that includes the Effective Date, and certain other requirements are met. A Non-U.S. Holder may, however, be subject to United States federal withholding tax and information reporting with respect to the property received in respect of accrued interest or market discount. A Non-U.S. Holder is a Holder that is not (i) a citizen or individual resident of the United States, (ii) a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, (iii) an estate whose income is includible in gross income for United States federal income tax purposes regardless of source or (iv) a trust if (1) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust, or (2) the trust was in existence on August 20, 1996 and properly elected to continue to be treated as a United States person.

D. Information Reporting and Backup Withholding

Distributions pursuant to the Plan will generally be subject to information reporting by the payor (the Disbursing Agent) to the IRS. Moreover, such reportable payments are subject to backup withholding under certain circumstances. Under the IRC's backup withholding rules, payments made pursuant to the Plan, may be subject to information reporting and backup withholding at the applicable rate unless the payee (a) comes within certain exempt categories (which generally include corporations) and, when required, demonstrates this fact or (b) provides a correct United States taxpayer identification number and certifies under penalty of perjury that the taxpayer identification number is correct and that it has not been notified that it is otherwise subject to backup withholding.

Payments made to a Non-U.S. Holder pursuant to the Plan generally will not be subject to backup withholding, provided that such Holder furnishes certification of its non-U.S. status (and any other required certifications), or is otherwise exempt from backup withholding. Generally, such certification must be provided on IRS Form W-8BEN. Information reporting may apply to payments received by a Non-United States Holder.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a Holder's United States federal income tax liability, and a Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing an appropriate claim for refund with the IRS.

XV. ADDITIONAL INFORMATION AVAILABLE

XO files annual, quarterly and current reports, proxy statements and other information with the Securities Exchange Commission ("SEC"). You may read and copy any documents filed by XO at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Our filings with the SEC are also available to the public through the SEC's Internet site at http://www.sec.gov.

XVI. RECOMMENDATION AND CONCLUSION

For all of the reasons set forth in this Disclosure Statement, the Debtor believes that the confirmation and consummation of either of the Alternatives under the Plan will be preferable to all other alternatives. Consequently, the Debtor urges all eligible voters to ACCEPT both the FL/Telmex Plan and the Stand-Alone Plan, and to complete and return their Ballots so that they will be RECEIVED by the Balloting Agent on or before 5:00 p.m., prevailing Eastern time, on August 19, 2002.

Dated: July 22, 2002

XO COMMUNICATIONS, INC.

By: /s/ Gary D. Begeman
Name: Gary D. Begeman
Title: Senior Vice President, General Counsel and Secretary

WILLKIE FARR & GALLAGHER
Tonny K. Ho, Esq.
Matthew A. Feldman, Esq.
Carollynn H. G. Callari, Esq.
787 Seventh Ave
New York, NY 10019-6099
(212) 728-8000

ATTORNEYS FOR
XO COMMUNICATIONS, INC.,
Debtor and Debtor-in-Possession